

2010 IFIC ANNUAL LETTER TO AGENTS



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March 2011

Valued Agents,

Thanks to the business you place with The IFIC Group (IFIC and ACC combined), direct written premium (DWP) from our regional offices grew by over 8% in 2010. While the direct loss ratio for the regional offices was higher than it has been in a number of years, it was still at a profitable 25% level. Due to your working relationship with our regional underwriters, The IFIC Group is the largest independent, privately owned surety in terms of both DWP and capital and surplus.

The picture on the front of this letter is that of Coach Marsh Pennington (upper left side) along with his daughter's soccer team winning a championship game a couple of years ago. Marsh is the Regional Manager of our Philly Regional Office, one of the most successful International Fidelity Insurance Company (IFIC) profit centers.

While in the surety world there are no championship games to win, for over 10 years Marsh has built and led one of the winningest surety franchises in the Philadelphia area marketplace. Another similarly successful regional manager on the other side of the country, Dorothy O'Connor, has spent almost 10 years building and leading our largest, most profitable commercial regional office servicing most of the west coast. That is why they are IFIC's first two regional managers appointed as Vice Presidents.

The long-term consistent track-record of profitable growth of Marsh's and Dorothy's profit centers are the result of the value they and the underwriters with whom they work place in servicing agents. Their working relationships with agents, as well as those throughout our other regional offices, have contributed to the company's overall long-term successful track record. Congratulations to Marsh and Dorothy on their appointments as Vice President in 2010. The company appreciates their significant contribution to building great staffs, leading the training program and most of all creating a responsive market for agents.

Obviously, no matter how great a coach Marsh is, his daughter's team won due to the performance of the players. Similarly, The IFIC Group could not have grown to where we are today without your long-term investment of business in IFIC and ACC. We appreciate it and know we would not be a winner without you.

What we did in 2010

The IFIC Group's 2010 net income increased by 15% over the prior year. This makes 2010 the fourth most profitable year in the company's history. Capital and surplus reach a record level of \$94.7 million at 12-31-2010. The IFIC Group's 2010 DWP declined 2.7% from \$147 million to \$143 million. This decline is from two areas. One is the continued run-off of DWP from the termination of a customs bond managing general agency relationship. The other is a one-time decrease in our bail writings.

In the last quarter of 2010 IFIC purchased over 65,000 shares of its own outstanding common stock. The resulting treasury stock from this transaction enabled IFIC to make ownership of these shares available to its employees through an employee ownership trust agreement. This entails employees voluntarily making investments in IFIC shares with their own after tax savings. As of this writing, over 10% of our employees have already purchased shares. Until all of the treasury stock is purchased the net effect of these transactions is to reduce IFIC capital and surplus from what it would be otherwise. Despite this, our surplus grew in 2010 due to the level of earnings retained in the company.

In 2010 we opened new commercial profit centers in Orlando, FL and Baltimore, MD and Allegheny Casualty Company (ACC) profit centers in Tallahassee, FL, Dallas, TX and Denver, CO. Due to a reduction in work force in the first half of 2010, our employee count did not grow as much in 2010 as I forecasted to you in last year's letter. In 2010 our employee count increased from 195 to 206.

During 2010 we took actions to build a more proactive, field driven claim department. We hired three experienced claims professionals, two of whom are attorneys. Not that long ago The IFIC Group had no claims professionals outside of its Newark, NJ headquarters. Today we have claims professionals located in Chicago, Dallas, Seattle, Baltimore and Philadelphia as well as Newark, NJ. Thus, in 2010 our claims operation became truly field driven!

What you should expect from IFIC in 2011

You should see our 2011 net income increase over 2010 levels. We are forecasting both our Regional Offices' DWP and The IFIC Group's DWP to grow in 2011. IFIC capital and surplus will most likely reach a new record level in 2011.

Our employee count will increase in 2011. It is forecasted to grow from 206 to over 220. This increase will come primarily from a combination of our continued commitment to our underwriting trainee program, growth in our commercial underwriting operation and additions to staff in ACC.

We are engaging a leading outside expert in surety claims to review the operations of our claims department. This review will enable us to put more effective claims work practices into place in 2011. This will enhance our claim department as a proactive, dynamic team. This is important to you because you place good accounts with us. When claim involvement is needed you deserve it to be as constructive an experience possible for you and your client.

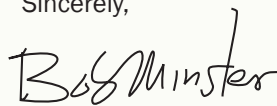
IFIC and ACC will continue to underwrite each account on its own merits, rather than rely on or be influenced by any kind of credit scoring model. Like last year at this time, we feel the economy will continue to be a challenging one in which to operate. If you have not seen this already, you should expect IFIC and ACC to underwrite the health of a principal's banking relationship more often than in the past. To do this well, IFIC and ACC underwriters must use good judgment as to exactly when and how they underwrite a contractor's banking relationship. We are counting on your support and input in this area.

As always, we recognize it is important for us to strike the needed balance of being consistent in how we underwrite while adjusting our underwriting to current economic conditions. We rely on your working relationship with our regional underwriters to make that happen.

In Closing

Thanks to your investment of business with The IFIC Group we have been able to reach a record level of capital and surplus. We appreciate your making our results possible. If you are traveling near Newark, NJ we hope you can make time to stop by for a visit. We would enjoy listening to what you have to say and keeping in touch.

Sincerely,



Robert W. Minster
Executive Vice President
Chief Operating Officer

IFIC GROUP MISSION STATEMENT

Our mission is to be a dynamic leading middle market surety that consistently provides the required return on investment to its shareholders by providing long-term rewarding relationships with its employees, agents and reinsurers.

This can only be sustained by guiding our actions according to the adage of always “doing the right thing”. This requires that all that we do be done in a manner that is legal, ethical and respectful to one another.



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